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January 13, 2000

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Cambridge Electric Light Company and Commonwealth Electric Company, D.T.E. 99-89

Dear Secretary Cottrell:

On October 27, 1999, Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (together, the "Companies") petitioned the Department of Telecommunications and Energy ("Department"), pursuant to G.L. c. 164, § 1A, 1G, 76, 94 and 94A to approve: (1) the Sixth Amendment to a Power Contract between Canal Electric Company ("Canal"), Cambridge and Commonwealth, which provides for the Companies' buydown of their embedded cost obligation with Canal with respect to purchasing electricity from Seabrook Unit No. 1 (the "Buydown Agreement"); and (2) the inclusion of the payments required to be made under the Buydown Agreement as an adjustment to the Companies' applicable Transition Charge. Specifically, the Companies request that the Department make findings:

That the Buydown Agreement is in the public interest and will result in just and reasonable rates for the Companies' retail customers, consistent with the statutory requirements of G.L. c. 164, §§ 1A, 76, 94 and 94A;

That the Companies, in entering into the Buydown Agreement, have taken all reasonable steps to mitigate, to the maximum extent possible, the total amount of transition costs relating to Seabrook in accordance with G.L. c. 164, § 1G; and

That the Buyout Amount shall be included in and recovered as part of the Transition Charge in accordance with the Companies' proposal, and as may be deemed required by G.L. c. 164, §§ 1A, 1G, 94 and 94A.

On December 13, 1999, the Department issued a Notice of the Filing and Request For Comments. Pursuant to that notice, the Attorney General submits this letter as his Comments concerning the filing made by Cambridge and Commonwealth.

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Subject to the conditions set forth below, the Attorney General submits that a timely paydown of embedded costs associated with the Seabrook generating plant is in the best interest of the Companies' customers and does not intend to object to timely approval of the proposed transaction. The Attorney General has long argued that the Seabrook related stranded cost burden borne by the customers of Cambridge and Commonwealth should be reduced by applying the proceeds from the divestiture of the Canal Units.

The Attorney General states that there are a number of options available to the Companies that could be used instead of transferring the funds to EIS (AG Brief at 14 n. 11). He states that the proceeds could be "netted against the \$200 million investment in Seabrook Nuclear Power Station" or the proceeds could be used to buy back stocks and bonds (i.d.).

Cambridge Electric Light Company, Commonwealth Electric Company, and Canal Electric Company, D.T.E. 98-78/83, p. 28 (1998) and D.T.E. 98-78/83-A (December 23, 1998). Importantly, however, notwithstanding the real benefits to be had from prompt consummation of the proposed transaction, a number of ratemaking and factual questions remain unresolved and require that any approval of that transaction be conditioned expressly on a determination that such an action will not effect the ultimate resolution of these important issues. In the absence of such conditions, the Attorney General submits that the proposed buyout should not be approved prior to the completion of the processes (discovery, hearings, and briefing) necessary to an appropriate resolution of these issues.

In particular, the Department has not yet determined whether the Companies' Seabrook related costs should be treated as generation related transition costs or as above market purchase power costs. See Cambridge Electric Light Company, Commonwealth Electric Company, and Canal Electric Company, D.T.E. 97-111, pp. 61-62 (1998). This is a matter to be resolved in a case currently before the Department concerning the Companies' first annual transition cost reconciliation filing. Id. p. 62. See Cambridge Electric Light Company, Commonwealth Electric Company, and Canal Electric Company, D.T.E. 99-90. The resolution of this question, however, will bear directly on the Department's approach to two critical issues concerning the Companies' Seabrook costs:

Whether the more than twelve month delay between the receipt of the proceeds from the Canal Units' divestiture and the application of those funds to reduce the Seabrook related transition cost burden on the Companies' customers was appropriate; (1) and

What, if any, ratemaking treatment should the Department give to any post December 31, 1995 investment as well as to any ongoing costs associated the Seabrook plant.

The Attorney General submits that approval of the proposed transaction need not and should not be deferred until the resolution of these two more contentious issues. See Western Massachusetts Electric Company, D.T.E. 99-29, Hearing Officer Ruling at 5-6 (May 6, 1999) (public interest was best served by limiting proceeding request for approval of transaction and deferring contentious ratemaking issues).

Moreover, in addition to the threshold issues addressed above, there are a number of lesser factual issues that also need to be resolved but need not delay the proposed transaction. (2) In particular, the Companies must provide information concerning the remaining available balance of the divestiture proceeds in the Energy Investment

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Services, Inc. ("EIS") fund as well as clarify whether the flow of funds to pay down the Seabrook investment will occur over a number of years (as indicated in Appendix 3(a) to the Petition), or whether it will occur in one step (as indicated in the Companies' Reconciliation Filing, Schedule 7, page 10 [Commonwealth], and pages 7 and 8 [Cambridge]). The Attorney General submits that the Companies should be able to provide this information within a matter of days so that the exact nature of its proposal can be understood on the record.

In conclusion, the Attorney General does not intend to object to the proposed transaction so long as such approval is subject to the conditions set forth above. In an effort to insure the timely and appropriate resolution of the reserved issues, the Attorney General suggests that the Department consider those issues in the pending proceeding concerning the Companies' annual reconciliation cost filing, D. T. E. 99-90.

Sincerely,

Joseph W. Rogers

Assistant Attorney General

cc: William H. Stevens, Esq. Hearing Officer

Robert Werlin, Esq.

John Cope-Flanagan, Esq.

Service List D. P. U. /D. T. E. 97-111, D. T. E. 98-78/83

1. The delay for calendar year 1999 alone has increased the stranded cost claim by the Companies' against their customers by more than \$10 million due to the difference between the "rate of return" included in the formula rate from Canal versus the "earnings" achieved on the EIS trust fund -- $\$183,578,000 \times (0.1055 - 0.0469) = \$10,757,671$. See Cambridge Electric Light Company, Reconciliation Filing Schedules, schedule Seabrook Depreciation Expense (beginning investment), schedule Seabrook Investment Base / Rate of Return (return on investment), and Schedule 7, page 7 (EIS average return).

2. The Companies have made changes in their transition charge reconciliation filings in D. T. E. 99-90, updating the original amounts of the buydown payments, apparently increasing the buydown amount to \$145,653,000 (see Reconciliation Schedules Update, schedule Seabrook Depreciation Update, Line 3), yet they have not made similar

modifications to their Petition for approval of the buydown which requests approval for \$74.2 million. See Petition, pp. 2-3.